



## Treasury Inspector General for Tax Administration

### ATTESTATION REVIEW OF THE INTERNAL REVENUE SERVICE'S FISCAL YEAR 2006 ANNUAL ACCOUNTING OF DRUG CONTROL FUNDS

Issued on February 1, 2007

## Highlights

Highlights of Report Number: 2007-10-046 to the  
Internal Revenue Service Chief Financial Officer.

### IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) reported it had expended \$55.484 million on Office of National Drug Control Policy (ONDCP)-related activities in Fiscal Year 2006. Reliable financial information is critical to the IRS' ability to accurately report on the results of its operations to both internal and external stakeholders, including taxpayers.

### WHY TIGTA DID THE AUDIT

This review was conducted as required by the National Drug Enforcement Policy and the ONDCP Circular entitled *Annual Accounting of Drug Control Funds*, dated April 18, 2003. National Drug Control Program agencies are required to submit to the Director of the ONDCP, not later than February 1 of each year, a detailed accounting of all funds expended (the ONDCP Circular requires amounts obligated) during the previous fiscal year.

### WHAT TIGTA FOUND

The IRS' Fiscal Year 2006 ONDCP detailed accounting submission and assertions, submitted to TIGTA on January 11, 2007, did not include all required material information or a reasonably detailed explanation regarding the methodology used to calculate funds expended. Specifically, ONDCP reporting guidelines require that all funds expended on ONDCP-related activities during a fiscal year be clearly reported. However, the IRS simply re-reported the funding of \$55.028 million it had received for the ONDCP in Fiscal Year 2006 and noted that funds actually expended were not materially different.

On January 25, 2007, TIGTA provided a discussion draft audit report notifying the IRS that (1) its ONDCP detailed accounting submission was materially incomplete and (2) the unit cost methodology was inadequate for the purpose of calculating funds expended in Fiscal

Year 2006, in the event it relied on this approach in any way.

In response to this report, the IRS indicated it had calculated funds expended on the ONDCP program in Fiscal Year 2006 to be \$55.484 million. In addition, the IRS clarified that this calculation is based on the application of direct investigative time attributable to the ONDCP program to Criminal Investigation function funds expended in Fiscal Year 2006. The IRS' response also noted that this calculation included a number of adjustments it had made to reflect costs specifically attributable to the ONDCP.

In general, the overall cost allocation methodology described in the IRS' response to our discussion draft report was reasonable and adequately explained, with the exception of one matter. Specifically, the IRS adjusted its allocation-based estimate of ONDCP funds expended upwards by \$2 million primarily to reflect salary and benefits related to program management and analytical support staff costs it directly attributed to the program. However, the IRS did not provide an explanation as to why these types of costs were so unique that they would not also be incurred by other Criminal Investigation function programs and therefore already be reflected in the overall allocated cost calculation.

Based on our review, if the IRS' Fiscal Year 2006 ONDCP report were adjusted to reflect the additional information and cost calculation methodology included in the IRS response to our discussion draft report, nothing came to our attention, with the exception of the matter discussed in the preceding paragraph, to indicate that the assertions are not presented in all material respects in accordance with ONDCP-established criteria.

### WHAT TIGTA RECOMMENDED

TIGTA recommended the Chief Financial Officer ensure future ONDCP reports use an analysis of current period financial activity in determining the funds expended.

In their response to the report, the IRS agreed with our recommendation and included a description of the method used to calculate the Fiscal Year 2006 drug resources based on current period funds expended.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200710046fr.pdf>.